



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

**Department of Community Affairs
American Recovery and Reinvestment Act
Weatherization Assistance Program
Weatherization Agencies**

April 1, 2009 to July 30, 2010

**Stephen M. Eells
State Auditor**

2008 - 2009

LEGISLATIVE SERVICES COMMISSION

ASSEMBLYMAN
JOSEPH J. ROBERTS, JR.
Chairman

SENATOR
THOMAS H. KEAN, JR.
Vice-Chairman

SENATE

ANDREW R. CIESLA
RICHARD J. CODEY
NIA H. GILL
ROBERT M. GORDON
SEAN T. KEAN
JOSEPH M. KYRILLOS, JR.
LORETTA WEINBERG

GENERAL ASSEMBLY

PETER J. BIONDI
JON M. BRAMNICK
JOHN J. BURZICHELLI
ALEX DECROCE
ALISON LITTELL MCHOSE
JOAN M. QUIGLEY
BONNIE WATSON COLEMAN



New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 292-4625

OFFICE OF THE STATE AUDITOR
(609) 292-3700
FAX (609) 633-0834

STEPHEN M. EELLS
State Auditor

THOMAS R. MESEROLE
Assistant State Auditor

JOHN J. TIRMYNA
Assistant State Auditor

The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Department of Community Affairs, American Recovery and Reinvestment Act, Weatherization Assistance Program, Weatherization Agencies for the period of April 1, 2009 to July 30, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells
State Auditor
November 8, 2010

Table of Contents

	Page
Scope	1
Background	1
Objectives	2
Methodology	3
Conclusions	4
Findings and Recommendations	
Cost Reports	5
Vehicle and Equipment Purchases.....	8
Inspections	10
Contractor Wages	11
Construction Costs	12
Appendix A.....	14
Auditee Response.....	15

**Department of Community Affairs
American Recovery and Reinvestment Act
Weatherization Assistance Program
Weatherization Agencies**

Scope

We have completed the second in a series of audits of the American Recovery and Reinvestment Act (ARRA) – Weatherization Assistance Program administered by the Department of Community Affairs (DCA). Our audit focused on the administrative and program costs of the local and community-based agencies for the period April 1, 2009 to July 30, 2010. The audit also included a review of selected general and application controls of the System for Administering Grants Electronically (SAGE), which is the DCA's primary method of accepting, reviewing, approving, and managing grants. Our initial audit on this program focused on the eligibility process at the local and community-based agencies. Currently, \$64 million of the \$119 million in total grant funds has been allocated to the local and community-based agencies. Total expenditures reported by the agencies were \$8.7 million as of July 30, 2010, consisting of \$6 million reimbursed by DCA and \$2.7 million reported, but not reimbursed. See Appendix A for detailed information regarding expenditure activity and completed housing units. Additional audit reports will be issued on selected topics relating to the ARRA – Weatherization Assistance Program.

Background

The ARRA Weatherization Assistance Program is proposed to run from April 1, 2009 to March 31, 2012. The Department of Community Affairs, Division of Housing and Community Resources oversees the program. The weatherization program has existed for many years, but the grants have been relatively modest, ranging from \$5 million in 2004 to \$8 million in 2009. Based on a federal formula, New Jersey received a total ARRA allocation of \$119 million for program distribution and administration from the United States Department of Energy (USDOE). The USDOE has

provided the DCA with 50 percent of the grant funds. Per USDOE Weatherization Program Notice 10-05, the state will receive the remaining 50 percent of funds based upon demonstrated progress. One of the demonstrations of progress is the completion of 30 percent of all units estimated to be weatherized.

The DCA provides grants to community action agencies or other public or non-profit entities (hereinafter referred to as weatherization agencies) to administer the program at the local level. The weatherization agencies are responsible for determining applicant eligibility, weatherizing homes, and conducting home assessments and inspections. Typical weatherization services include installing insulation, sealing ducts, and mitigating heat loss through windows, doors and other infiltration points. The weatherization agencies input the information from applications into the Hancock Energy Software Weatherization Assistance Program (HESWAP) system, which determines program eligibility and tracks the actual weatherization of residences. The DCA monitors the weatherization agencies' compliance with applicable program regulations and guidelines. Weatherization agencies are initially provided with an advance of funds and are required to submit financial status reports on the expenditure of those funds.

The state plan submitted by the DCA established a goal of 13,381 weatherized units. The weatherization agencies are to weatherize 8,288 units, the New Jersey Housing and Mortgage Finance Agency will weatherize 3,877 units, and an additional 1,216 units will be weatherized with DCA Set Aside Funds.

Objectives

One objective of our audit was to determine whether adequate controls were in place at the DCA to determine the allowability and propriety of administrative and program costs for the weatherization agencies. In addition, we determined if the weatherization agencies were in

compliance with employee wage requirements for weatherization workers. We further determined the adequacy of selected general and application controls over SAGE. These controls included policies and procedures to ensure that grant data is monitored and secure.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Additional guidance for conduct of the audit was provided by Control Objectives for Information and Related Technology (CobiT) issued by the IT Governance Institute.

In preparation for our testing, we studied the American Recovery and Reinvestment Act – Weatherization Assistance Program guidelines, policies of the DCA, and weatherization bulletins; and we reviewed contracts with the weatherization agencies. We also interviewed DCA personnel and personnel from the weatherization agencies to obtain an understanding of the administrative and program cost processes. In addition, we obtained training on the HESWAP system from DCA staff.

A nonstatistical sampling approach was used. Our samples of weatherization agencies were selected separately for the tests of administrative costs and program costs. The administrative cost sample was selected through a review of the expenditures on SAGE. We compared the administrative expenditures on SAGE to the actual invoices at the weatherization agencies. The program cost sample was selected through a review of both HESWAP and SAGE. We compared data available in the HESWAP system to the actual files at the weatherization agencies. Our tests of vehicles and equipment over \$5,000 and auditing fees were

based on a review of all of the weatherization agencies.

Conclusions

We found that controls were suitably designed for the DCA to determine the allowability and propriety of administrative and program costs for the weatherization agencies. However, these controls are not being effectively implemented in the area of program costs. We noted required inspections were not completed and program costs were not documented in some cases. In addition, we found that the weatherization agencies have paid their in-house crews the required wages, but many contractors working for the weatherization agencies are not complying with wage requirements. Finally, we found that the selected general and application controls of the SAGE system are adequate to ensure that grant data is monitored and secured.

Cost Reports

Weatherization agencies have been reimbursed for unreasonable costs because of inadequate review of financial reports and lack of guidance from the state and federal governments. The federal government does not provide detailed guidance on allowable administrative costs for the weatherization grant. As stated on the Weatherization Assistance Program Technical Assistance Center website, “program guidance in this area does generally lack specificity and is not mandatory that every State use the guidance uniformly.” The United States Department of Energy issued Weatherization Program Notice 09-1B on March 12, 2009, which stated that funds are to be used “for authorized purposes, and instances of fraud, waste, error, and abuse are mitigated.” This puts the burden on the Department of Community Affairs (DCA) to provide guidance on allowable costs. According to the DCA contracts with the weatherization agencies, allowable administrative costs include administrative salaries, travel expenditures, consumable supplies, office space and equipment, postage, telephone fees, and insurance.

Section 1512 of the American Recovery and Reinvestment Act of 2009 (ARRA) requires the submission of reports that contain detailed information on projects and activities funded by the Recovery Act. These reports are to provide the public with an unprecedented level of transparency into how federal dollars are being spent and will help drive accountability for the timely, prudent, and effective spending of recovery dollars. Information included in these reports is submitted by the weatherization agencies through the DCA’s System for Administering Grants Electronically (SAGE). These reports include a Status Report, ARRA Job Creation and Retention report, and the Vendors For This Project report. The vendors report lists

the vendors paid with ARRA funds during the specific quarter. The DCA staff performs a cursory review of the Financial Status Reports submitted by the weatherization agencies. They do not review the vendor report for unusual items. In May 2010, the DCA contracted with a CPA firm to conduct fiscal and programmatic monitoring services for the 23 weatherization agencies.

Allowable Costs

DCA should provide more specific guidelines on allowable ARRA Weatherization costs.

We visited four weatherization agencies receiving ARRA Weatherization funds in different areas of New Jersey. In addition, we reviewed various SAGE reports and examined supporting documentation for costs charged to the program. During our review of expenditures totaling \$613,577, we noted \$54,025 in unreasonable costs.

- One weatherization agency purchased two In-Dash GPS Navigation systems for \$1,499 each when a portable GPS for \$200 would be sufficient. The same agency purchased two unnecessary engine remote starters at the excessive prices of \$500 each.
- During our review of reports on the SAGE system, we noted a weatherization agency was reimbursed \$17,327 during the period July 1, 2009 to September 30, 2009 for vehicles already purchased. The agency requested reimbursement for replacement costs of over \$1,000 per month for each of five vehicles. It claimed the replacement costs of all vehicles were over \$20,000, including a cost of \$27,970 for a 2001 Ford Wagon.
- As of June 2010, eight agencies have received a total of \$49,400 for auditing fees. We reviewed the two weatherization agencies with audit fees over \$10,000 and

found that both agencies have been reimbursed for auditing fees totaling \$32,700, although no services had been performed.

Timing of Payments

Weatherization agencies should be paid within a reasonable time frame.

The weatherization agencies received advance payments of 35 percent of their grant award. The purpose of the advance is to provide the grant recipient with the working capital needed to initiate the provision of grant activities and to meet the immediate cash-flow needs. In order to receive additional payments, weatherization agencies must report expenditures by submitting a Financial Status Report (FSR) through the SAGE system.

Before approval of the FSR, the DCA's monitors must approve all client files and a percentage of completed units in HESWAP for the FSR time period. The FSR must be approved and paid before the grantee can begin working on their next expense report. The USDOE Weatherization Program Notice 09-1B states various accountability objectives of the Recovery Act, which includes the following: "funds are awarded and distributed in a prompt, fair, and reasonable manner" and "projects funded under this Act avoid unnecessary delays and cost overruns." We performed a test of all FSRs for which a payment was received and noted that expense reports are reimbursed in an unreasonable time frame because of the lack of monitors' approvals of weatherized units. Since grantees cannot submit their next FSR until the current one has been fully processed, many payments have been delayed, thus causing ARRA Weatherization funds to be unspent.

Fourteen of the thirty-six FSRs were paid over 30 days after the final submission of the report, averaging 52 days and up to 115 days. As of June 2010, three additional FSRs were in process over

30 days after submission to the DCA. The lag times for these reports were 77, 145, and 173 days.

Recommendation

We recommend the DCA continue their use of a CPA firm to audit the weatherization agencies and review their results and issue guidance on systemic issues. The DCA should review the quarterly Section 1512 reports for any unusual or unreasonable items. We also recommend that DCA's monitors inspect client files and completed units within a reasonable time period and that FSRs be reviewed and reimbursed timely.



Vehicle and Equipment Purchases

Controls need to be strengthened for purchases over \$5,000.

All vehicles and equipment over \$5,000 purchased with American Recovery and Reinvestment Act funds are required to be approved by the U.S. Department of Energy (USDOE) per Weatherization Program Notice 09-1B. The USDOE has established minimum information needed for their approval, including the grantee's name, where and how the vehicle will be used, whether this is a replacement or an expansion, copies of bid specifications and bids received, and a statement that the lowest bid will be selected.

The Department of Community Affairs (DCA) requires more detailed information through its contract with the grantees. The contract states that the title to the vehicle shall be taken in the name of the grantee, with the first lien to the State of New Jersey, Department of Community Affairs, Weatherization Assistance Program. The grantee must provide the copy of the registration with recorded lien to the DCA within ten days after registration of the vehicle.

We identified 18 requests for vehicles and equipment over \$5,000 by the weatherization agencies during our audit period. We found that the DCA has not enforced compliance with the regulations as evidenced by the following.

- One agency purchased a \$6,400 insulation machine and another purchased a thermal imager with an integrated digital camera for \$8,995 without the required USDOE approval. DCA staff has stated that if an agency purchases items over \$5,000 and they do not get an approval, the cost is not an allowable expense and they would not get reimbursed. We found that this is not enforced by the DCA and the above two items were reimbursed.
- Seven out of eighteen requests for vehicle and equipment purchases did not have USDOE approval documented. The approvals from the USDOE can be done electronically. We were advised by DCA staff that several of the approvals, which were sent electronically by the USDOE, were not printed out and were deleted from the computer.
- Required documentation was not submitted by the weatherization agencies. All vehicle approval requests did not have the required monthly cost of the vehicles if leased, the schedule of monthly maintenance, and the titles were not forwarded showing the DCA as the first lien holder.

Additional purchases were identified during our review of expenditures from the financial status reports. We noted one weatherization agency had purchased four vehicles that had no USDOE approval documentation. Also, the DCA was not the first lien holder on the vehicles.

Recommendation

We recommend that the DCA establish a tracking and inventory system of vehicle and equipment purchases to ensure compliance with USDOE and departmental directives. This system should include documenting and maintaining the original request from the weatherization agency, approval from the USDOE, submittal of invoice and title to the DCA, and the reimbursement to the weatherization agency. Grantee expenditures should be reviewed to determine if items over \$5,000 are being purchased without approval.

»»» <<<

Inspections

Inspections should be performed to ensure quality weatherization services.

Client files are not being properly maintained by the weatherization agencies or inspected by the Department of Community Affairs' (DCA) monitors. The DCA weatherization bulletins and the grant agreement between the DCA and the weatherization agencies require that certain forms be posted in the client files. We found that forms were missing, not properly completed, or missing signatures. In addition, the DCA monitors are required to physically inspect completed units per the weatherization grant, weatherization bulletins, and the DCA memoranda. We found that reimbursements were made without the proper documentation of reviews by the DCA monitors. Our review of the inspection requirement revealed the following.

- All client files must be inspected by the DCA monitors. We reviewed 60 files and found that 39 were incomplete in that forms and/or signatures were missing.
- The DCA monitors are required to perform a physical inspection of all completed units where the expenditure is less than \$800 for crew-based weatherization agencies and

\$1,000 for contractor installations. We reviewed 22 units under this category and found the DCA monitors had inspected only 12.

- The DCA monitors are required to physically inspect a percentage of other completed units. This percentage ranges from five percent to 100 percent of the weatherized units. The DCA monitors had not inspected the required number of completed units in one of the eight weatherization agencies reviewed. This was a new agency and as such required inspection of all of their completed units. For the first quarter of this year, this weatherization agency completed eleven units, but the DCA monitor only inspected four.

Recommendation

We recommend that the DCA implement a checklist of required documentation and that the checklist be posted in the client files. The DCA monitor should also annotate on this checklist that they have inspected the files and whether or not the unit had a physical inspection and the results of that inspection. We recommend that the DCA management notify the DCA monitors of the required physical inspection percentages for each agency. We also recommend that the DCA management emphasize the importance of these inspections to the DCA monitors and payments not be made until proper documentation and all required inspections are completed.

»»»«««

Contractor Wages

Required wages should be paid and a policy should be established.

The state plan requires that all contractors performing weatherization work must pay their employees a living wage currently estimated to be \$17.40 per hour plus benefits or the federal prevailing wage, whichever is higher, and must

provide quality, affordable, employer-sponsored health insurance to its employees. In addition, the Department of Community Affairs (DCA) was required to adopt a policy establishing the minimum level of compensation, benefits, and training required of all sub-grantees.

We found that weatherization agencies have paid their in-house crews the required wages, but many contractors are not complying with the requirement. We tested wages for 54 employees working for 10 contractors and found that the wages paid for 29 employees did not meet the minimum requirement of the grant. Hourly wage differences averaged \$2.33 less than the minimum. We can not comment on the requirement of providing quality, affordable, employer-sponsored health insurance as the DCA has not provided guidance or a definition for this requirement.

Recommendation

We recommend that the DCA establish a policy on compensation and benefits for the weatherization workers, and that they provide this to their sub-grantees and contractors, and monitor compliance. We also recommend that the DCA require all contractors who have not paid the proper wages in accordance with their contracts to pay their employees the difference between actual pay and the required pay.

»»««

Construction Costs

Construction costs could be reduced with proper verification of prices.

Weatherization agencies have not followed the Department of Community Affairs (DCA) guidance, Weatherization Bulletin 202, which requires construction costs to be documented in the client file. We reviewed 60 files that had construction costs of \$132,000 and found that weatherization costs for 31 files, valued at \$69,000, could not be verified. Additionally, we

reviewed material and labor costs on the HESWAP system for items common to all weatherization agencies and found that unit costs had wide variations. One weatherization agency charged the program \$1.50 for light bulbs, but another weatherization agency charged the program \$27. A weatherization agency charged \$10 for a clothes dryer vent while another weatherization agency charged over \$78 and an additional \$48 for installation. Other material cost ranges were low-flow shower heads from \$3 to \$60 with an additional \$40 for installation, air conditioning covers from \$17 to \$50 with an additional \$50 for installation, and smoke detectors from \$10 to \$54 with an additional \$20 for installation. Four-year refrigerator protection plans are under a statewide contract which costs \$85, but some agencies are charging as much as \$131. We also noted that a weatherization agency charged an energy program \$22 for a carbon monoxide detector and within the same month also charged the weatherization program \$75.

Recommendations

We recommend that invoices or inventory costs be documented in the client files to verify costs charged to the weatherization program. We also recommend that the DCA monitors become more involved in reviewing actual costs and not reimburse items that are unreasonable or unsubstantiated.

»»» <<<

DEPARTMENT OF COMMUNITY AFFAIRS
AMERICAN RECOVERY AND REINVESTMENT ACT
WEATHERIZATION ASSISTANCE PROGRAM
WEATHERIZATION AGENCIES

Appendix A

Weatherization Assistance Program Activity
April 1, 2009 through July 30, 2010

Agency Name	¹ Total Grant Awarded to Agency	² Approved Expenditures per SAGE	³ In-Process Expenditures per SAGE	Total Expended per SAGE	Projected Units Per State Plan	⁴ Units Completed per HESWAP
Bayonne Economic Opportunity Foundation	500,000	-	5,892	5,892	65	0
Bergen County Community Action Partnership, Inc.	5,000,000	882,661	643,268	1,525,929	646	182
Burlington County Community Action Program	3,000,000	431,034	70,843	501,877	388	51
Camden County Council on Economic Opportunity	5,500,000	496,289	-	496,289	711	52
Cape Human Resources, Inc.	500,000	-	31,774	31,774	65	3
Check-Mate, Inc.	5,000,000	817,255	-	817,255	646	100
First Hopewell Multi-Purpose Community Center	2,500,000	182,477	178,504	360,981	329	62
La Casa de Don Pedro, Inc.	5,000,000	271,378	62,289	333,668	646	15
Mercer County	4,000,000	32,364	219,176	251,540	517	7
Morris County Organization For Hispanic Affairs	2,000,000	176,731	144,548	321,279	258	37
NORWESCAP	1,500,000	100,711	3,430	104,141	194	0
Ocean Community Economic Action Now, Inc.	6,500,000	807,259	-	807,259	840	165
Passaic County	1,105,000	58,676	-	58,676	143	0
Paterson Task Force for Community Action, Inc.	3,000,000	375,362	-	375,362	388	40
PROCEED, Inc.	5,000,000	595,915	382,201	978,116	646	91
Puerto Rican Action Board, Inc.	2,000,000	70,212	362,506	432,718	246	69
Puertorriquenos Asociados for Community Organization	1,900,000	-	65,918	65,918	258	7
Somerset Community Action Program Inc	500,000	-	7,083	7,083	65	0
Tri-County Community Action Agency, Inc. ¹	8,500,000	563,891	411,394	975,285	1107	155
United Passaic Organization, Inc.	500,000	154,822	152,566	307,388	65	15
Urban League of Morris County	500,000	-	-	-	65	0
TOTAL	64,005,000	6,017,038	2,741,393	8,758,430	8,288	1,051

1. Included all information for the Nanticoke Lenape Tribal Enterprises.

2. Expenditures that have been reimbursed by the DCA.

3. Unpaid expenditures that have been submitted for reimbursement.

4. All weatherization measures have been installed and subsequently inspected by the weatherization agencies.



State of New Jersey
DEPARTMENT OF COMMUNITY AFFAIRS
101 SOUTH BROAD STREET
PO Box 800
TRENTON, NJ 08625-0800

CHRIS CHRISTIE
Governor

KIM GUADAGNO
Lt. Governor

LORI GRIFA
Commissioner

Stephen M. Eells, State Auditor
Office of the State Auditor
Office of Legislative Services
125 S. Warren Street
Trenton, New Jersey 08625-0067

November 4, 2010

Dear Mr. Eells,

I appreciate the opportunity to respond to the second audit report of the Department's American Recovery and Reinvestment Act ("ARRA") Weatherization Assistance Program, ("WAP"), which examined the administrative and program costs of the community based agencies that Department of Community Affairs ("DCA") contracts with to provide weatherization services to low income households.

In 2009, New Jersey received an allocation of \$119 million in ARRA funding for the WAP program. With this funding, DCA set an ambitious goal of weatherizing more than 13,000 units in three years. The rapid expansion of this program in 2009 to meet tight federal timelines exposed weaknesses in DCA's monitoring and record keeping protocols. These shortcomings have been or are being remedied immediately.

First, as a consequence of the March 2010 State Auditor report on program eligibility controls and managerial issues in the weatherization program, the two most senior program supervisors have been replaced, and another has been reassigned. Strict procedures have been introduced to insure that cost controls are effectively implemented.

Second, an accounting firm was engaged by DCA in May 2010 to conduct ongoing reviews of the fiscal integrity of each of the 23 local weatherization agencies. As part of each local agency review, DCA will take all actions necessary to insure corrective measures are implemented immediately.

Furthermore, we agree with your evaluation that DCA's program controls, although appropriately designed, were not adequately executed. With the reorganization of the weatherization unit, DCA has already strengthened the administration of the program to achieve greater accountability. Additionally, the weatherization field staff will now be aggressively monitoring each local agency to assure compliance with the audit recommendations and new protocols established by the DCA.

A detailed response to the audit report findings and recommendations and a full description of the actions being taken by DCA to address them are contained in the attachment to this letter. If you have any questions, please contact Brian Phillips, Director of the DCA Office of Auditing at 609.984.2698.

Thank you again for your consideration and for the opportunity to respond.

Sincerely,

Lori Grifa
Commissioner



Allowable Costs, Timing of Payments

OLS Recommendation

We recommend the DCA continue their use of a CPA firm to audit the weatherization agencies and review their results and issue guidance on systemic issues. The DCA should review the quarterly Section 1512 reports for any unusual or unreasonable items. We also recommend that the DCA's monitors inspect completed units within a reasonable time period and that FSRs be reviewed and reimbursed timely.

Response

Allowable Costs

A new management team was put in place on October 26, 2010 to strengthen DCA's oversight and enforce accountability in spending and reimbursement. We also anticipate new additions to the team over the next few weeks. Agencies have been advised that supporting documentation of costs must be available for review. Administrative costs will be supported by invoices validating the expense and construction costs will be documented as required by the uniform file format checklist. Unsupported costs will not be reimbursed. Demands have been made for reimbursement of all unreasonable expenditures that have been identified in this audit.

Procedures have been instituted requiring staff to review the quarterly ARRA Section 1512 reports for items and vendors that seem unusual or unreasonable. The preparation of the Section 1512 report has been reassigned to the weatherization program supervisor. Further, personnel above the program supervisor have been assigned additional review and approval responsibilities. For example, the Program Unit Supervisor (higher level) has reviewed the 2nd and 3rd Quarter 2010 Vendor Reports in order to identify any abnormalities.

In May 2010, a CPA firm was retained to enhance DCA's enforcement of fiscal and programmatic requirements. Specifically, the firm was asked to review and provide exception reports of weekly certified payrolls for compliance with Davis Bacon Act requirements. DCA will now expand the scope of the contract to include examining agency reimbursements to determine if any unallowable expenses have been reimbursed, and to review program reports for accuracy. The firm will also perform an independent annual fiscal monitoring of each agency.

Auditing fees that were reimbursed without invoices for audit services accounted for fully 60% of the questionable costs cited in this section of the report. In light of this finding, DCA has notified weatherization grantees that audit fees must be supported by invoices demonstrating that the fees have been incurred, not simply anticipated. Any unsupported audit fees that were reimbursed will be recaptured.

Timing of Payments

In order to report expenditures, weatherization agencies submit Financial Status Reports (FSR) to the DCA through SAGE. Currently, FSRs are submitted prior to the DCA performing quality control reviews of the units. In many instances, failed quality reviews account for the delays in payment. The Department continually monitors the financial status of the weatherization agencies. At no time during the audit review period was any agency in jeopardy of failing to provide services for the lack of sufficient funds on-hand. Nonetheless, the reimbursement process will be shortened because only completed and supported FSRs can be submitted for payment.

Beginning November 8, 2010, an agency's request for a draw of funds will be conditioned upon a monitor's report verifying that the units for which funding is requested have passed inspection. In order to respond promptly to agency requisitions, DCA monitors will provide agencies with monitoring reports at the time of inspection for inclusion with the FSR submission. The new management team will track and balance the workload of the program staff so that completed units can be inspected without delay. The revised draw process, which will include the previously noted uniform checklist, changes in field practices, and supported requisitions, will substantially improve the timing of payments.

Vehicle and Equipment Purchases

OLS Recommendation

We recommend that the DCA establish a tracking and inventory system of vehicle and equipment purchases to ensure compliance with USDOE and departmental directives. This system should include documenting and maintaining the original request from the weatherization agency, approval from USDOE, submittal of invoice and title to the DCA, and the reimbursement to the weatherization agency. Grantee expenditures should be reviewed to determine if items over \$5,000 are being purchased without approval.

Response

In accordance with this recommendation, staff has designed and is implementing a tracking and inventory system for vehicle and equipment purchases over \$5,000. This system includes the ability to trace the purchases over the entire course of the transaction ensuring compliance with USDOE and Departmental directives. The revised financial reporting process will prevent agencies from receiving funds for the purchase of vehicles and equipment over \$5,000 in advance of, or without, US DOE approval and DCA concurrence.

The audit report identified two high cost items purchased without USDOE approval. Post-purchase approval requests for a \$6,400 insulation machine and an \$8,995 thermal imager have been submitted to USDOE. As of this date, the purchase of the insulation machine has been approved by the USDOE. The thermal imager approval is pending. If USDOE does not approve the purchase, the weatherization agency will be required to reimburse the total cost of the item. Going forward, any purchases without proper pre-approval will be automatically rejected.

Inspections

OLS Recommendation

We recommend that the DCA implement a checklist of required documentation and that the checklist be posted in the client files. The DCA monitor should also annotate on this checklist that they have inspected the files and whether or not the unit had a physical inspection and the results of that physical inspection. We recommend that the DCA management notify DCA monitors of the required physical inspection percentages for each agency. We also recommend that the DCA management emphasize the importance of these inspections to the DCA monitors and payments not be made until proper documentation and all required inspections are completed.

Response

A uniform documentation checklist for client files, consistent with the above recommendation, has been developed. A draft checklist and approval process was prepared by program management and monitors in early October and was circulated to all interested parties during the week of October 27, 2010. The new checklist will be introduced the week of November 8, 2010 and will allow the monitors conduct a systematic review of work previously approved.

Under this new system, every client file will have a uniform format and contain a checklist of all required documentation. The agency weatherization manager or his designee will be required to sign the checklist indicating the file's completeness prior to the DCA monitor's review. Monitors will also sign each checklist attesting that they have reviewed and approved the file, and indicating whether they have physically inspected the unit. We believe this will significantly increase accountability and allow for a more efficient review of files and units by DCA monitors.

The new DCA managers will reinforce with their monitors the absolute necessity of both file and physical inspection duties through training and oversight, including periodic file reviews.

Contractor Wages

OLS Recommendation

We recommend that the DCA establish a policy on compensation and benefits for the weatherization workers and that they provide this to their sub-grantees and contractors, and monitor compliance. We also recommend that the DCA require all contractors who have not paid the proper wages in accordance with their contracts to pay their employees the difference between actual pay and the required pay.

Response

The OLS report found that in-house crews of the weatherization agencies were properly paid, but found instances where outside contractors of some of the sampled agencies did not adequately compensate their employees. To achieve 100% compliance with the compensation requirements of the program, all weatherization agencies and associated contractors must now submit payroll reports to a data collection firm and the CPA firm hired by DCA. In turn, the CPA firm will provide the DCA with a weekly report detailing any underpayments or compliance errors.

All weatherization agencies received training from the U.S. Department of Labor (USDOL) on October 20, 2010 specifically addressing Davis Bacon Act compliance. Compliance training on this and other topics will continue throughout the duration of the program.

Weatherization agencies were notified in writing on October 29, 2010 of the underpayments cited in the OLS report and were directed to remedy the underpayments no later than November 8, 2010. Failure by an agency to comply will result in the suspension of its grant agreement. If necessary, infractions will be referred to the USDOL or the New Jersey Department of Labor and Workforce Development for appropriate action. Noncompliance by a contractor may result in suspension or debarment from the program.

Construction Costs

OLS Recommendation

We recommend that invoices or inventory costs be documented in the client files to verify costs charged to the weatherization program. We also recommend that the DCA monitors become more involved in reviewing actual costs and not reimburse items that are unreasonable.

Response

This recommendation will be effected through the aforementioned documentation checklist placed in each client file. Program monitors have been instructed to identify questionable or excessive charges or missing invoices during the file review process. Monitors are being helped to recognize variations in construction costs and to question charges that appear unreasonable. Management will perform random checks in order to ensure the proper implementation of these procedures.

A mandatory training session for agency weatherization managers was held in July 2010. All were told that there must be an auditable trail for every facet of production including materials procurement, inventory, use in production, and invoicing for reimbursement. Agencies that do not comply with this directive will not be reimbursed for expenses.

We have investigated the cost irregularities found in particular files that were inspected as a function of the audit. The disposition of those charges follow. The light bulbs and carbon monoxide detectors cited by the OLS have not been reimbursed. The units associated with these costs have failed to pass quality control monitoring and the costs will be denied by DCA as unreasonable.

The costs above the statewide refrigerator protection plan contract have been accounted for by the weatherization agencies. In one instance, the plans were purchased by a vendor triggering the sales tax and increasing the cost of both the refrigerator and the protection plan. In another instance, the color of the refrigerator added a premium of \$15.

The \$60 low flow shower head accompanied by a \$40 installation charge occurred in an urban housing authority apartment. The housing authority required a specific type of shower head to conform to the rest of the building. The higher wage rate was due to applicable Davis Bacon wages for commercial properties. These charges have not been reimbursed.

The charges OLS referenced for the high installation cost of dryer vents are represented by the agency as particular to the construction of the building in that the existing dryer did not vent to the exterior of the unit. The agency was required to correct and reconfigure the exhaust system instead of simply replacing the ductwork. The installation necessitated boring holes to vent the dryer to the outside and took longer than the typical duct replacement. The expenses for the four units have been reimbursed.

The accounting firm will help DCA staff to identify questionable costs. Slight variations in costs may be justified based on regional differences, bulk purchasing, or contract bidding. There may also be disparities from program to program due to the additional administrative costs associated with Davis Bacon wage compliance or other operational factors. However, newly established program procedures will identify and prevent agencies from seeking payment for unsubstantiated or excessive costs. Agencies failing to abide by the new regulations will be more closely monitored and are subject to disallowed costs, a reduction in funding, suspension from the program, and/or where appropriate, a referral for criminal prosecution.

As a consequence of the audit reports and other managerial issues in the weatherization program, the two most senior program supervisors have been replaced, and another has been reassigned. Strict procedures have been introduced to insure that cost controls are effectively implemented. The new management team is working diligently to engineer solutions to the problems identified by the audit. Many program policies and procedures have already been revamped, while additional changes are currently in development. Stronger administrative controls, appropriate supervision, and support of the state monitors and weatherization agency personnel, will help New Jersey's ARRA WAP program recover from its shaky beginning and successfully reach the goal of 13,000 units weatherized.